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E.O. 12958: DECL: 10/24/2018
TAGS: ECON ETRD EINV PREL PGOV TW CH
SUBJECT: TAIWAN POWERCHIP CHAIRMAN ON FUTURE OF MEMORY CHIP
SECTOR

REF: A. TAIPEI 711
¶B. TAIPEI 526 AND PREVIOUS

Classified By: AIT Director Stephen M. Young for reasons 1.4
(b) and (d).

¶1. (C) Summary. During a June 29 farewell call with the Director, Powerchip Semiconductor Chairman Frank Huang expressed guarded optimism about the future of Taiwan's DRAM memory chip sector. Huang dismissed the possibility of a restructuring of the sector, saying the Taiwan Memory Corporation (TMC) set up by the Ma administration is ineffectual. In addition, Huang said he has heard from Japanese government officials concerns about unrestricted transfer of DRAM chip production technology from Japan's Elpida Technology Corporation to TMC. According to Huang, the Japanese government may seek to restrict transfer of some chip production technology if Elpida goes ahead with plans to partner with TMC. End Summary.

¶2. (C) Powerchip Semiconductor Corp. (PSC) is one of the world's leading producers of dynamic random access memory (DRAM) semiconductors, and PSC's Chairman, Frank Huang, is considered one of the pioneers of Taiwan's semiconductor manufacturing sector. On June 29, Huang paid a farewell call on the Director and shared some of his insights on the current status and future of the DRAM industry.

¶3. (C) Regarding future prospects for Taiwan's DRAM manufacturers, Huang said he believes a small increase in demand for consumer electronics in the U.S., combined with continued growth of China's domestic market, should pull up DRAM chip prices by the fourth quarter of this year. Huang admitted that PSC, like Taiwan's other DRAM makers, continues to face a cash flow crisis, but he asserted that, after renegotiating the terms of its outstanding bond repayment schedule, his firm will be able to meet its financial obligations in the near term.

¶4. (C) Huang said a June PRC trade delegation to Taiwan which purchased over USD 2 billion in flat panel television screens (Ref. A) was long anticipated. He noted that leading TFT-LCD panel maker Chi Mei Optoelectronics was the primary beneficiary of the buying mission, due to what Huang claimed are the firm's strong ties to government officials in Beijing. Huang said his firm received orders for 30,000 LCD drivers in May, due to the buying mission - a significant increase from the 2,000 orders for the same product PSC received in February. Huang opined that the PRC's policy of subsidizing purchases of consumer electronics by rural

households would continue, benefiting Taiwan's DRAM makers.

¶5. (C) According to Huang, the Taiwan Memory Corporation (TMC), which was established by the Ma administration to restructure Taiwan's struggling DRAM manufacturing sector, is not likely to orchestrate an actual reorganization of the island's DRAM makers. Huang said TMC's efforts are being blocked by the powerful Formosa Plastics Group, the parent of DRAM manufacturer Nanya Technology Corp. (Note: Nanya Technology is engaged in a joint venture with U.S. DRAM maker Micron Technology. See Ref. B for details of Micron-Nanya interaction with TMC. End Note.) Huang did not elaborate on how Formosa Plastics is impeding TMC, adding only that Minister of Economic Affairs Yiin Chi-ming is feeling pressure since he cannot report to the Legislative Yuan the specific steps the administration is taking to aid Taiwan's DRAM makers. Huang said PSC does not plan to work with TMC, and asserted that his firm has not requested any financial assistance from the administration.

¶6. (C) Huang said Japanese officials told him Tokyo may try to block the transfer of DRAM chip production technology from Japan's Elpida Technology Corp. (Elpida) to TMC. TMC has sought unrestricted access to Elpida's manufacturing technology as a condition of partnering with Elpida as part of TMC's planned restructuring of Taiwan's DRAM sector. (Note: Separately, industry analysts told us TMC and Elpida have made no progress in negotiating a joint venture. End Note.) Huang predicted TMC would ultimately be unsuccessful in securing unrestricted technology transfer from Elpida.

¶7. (C) Taiwan's DRAM makers currently cannot afford to upgrade their production facilities, Huang said. He added that new production capacity could not come on-line before ¶2012. However, he said PSC can continue to be competitive with its existing technology. According to Huang, Taiwan's DRAM makers' chief rival, South Korea's Samsung, no longer seeks to dominate the global DRAM market. He said he believes Samsung will limit its market share to just over 50 percent, in order to avoid incurring U.S. government sanctions.

¶8. (C) Comment. Huang sounded sure of PSC's continued viability, although he suggested that he personally was tired of the fierce competitiveness of the DRAM business. His dismissal of TMC's efforts to restructure Taiwan's DRAM manufacturing sector are consistent with other negative assessments of TMC we have heard from analysts and semiconductor executives. End Comment.

YOUNG